

—Interprovincial Satellite Services Ltd.—

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Edmonton, Alberta T6G 2R6

INTERSAT

1997 ANNUAL REPORT

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CORPORATE PROFILE

Interprovincial Satellite Services Ltd. ("INTERSAT") is a leading provider and developer of engineered remote fax and data communication solutions for industry, primarily through the application of advanced mobile satellite technologies.

We connect drilling rigs, mining and forestry camps, construction sites, planes and ships to corporate offices with commercial data services such as satellite fax and file transfer. We connect remote oil and gas wells, storage tanks, pipelines, utility meter stations, and environmental measuring devices to corporate offices and mobile workers.

In the simplest sense, we connect remote human and capital assets to the owners and managers of those assets, thereby improving

productivity, efficiency, safety, environmental management and revenues.

Our customer base includes major oil and gas producers and service companies, international mining and forestry giants and major public utilities and public agencies.

As this is our first annual report as a public corporation, we have taken the liberty of providing more in-depth information about our company, our background, our networks and our products and services. Nevertheless, as this report is necessarily limited in its scope, we welcome calls and inquiries from our shareholders.



LETTER TO OUR SHAREHOLDERS

On behalf of our staff and Board of Directors, it is with great pride that we present our first annual report. As we accelerate into a bright future, we are pleased to provide for your consideration a discussion of our progress to date.



J.T. Knight, Ph.D., P. Eng.
President & CEO

As most of you are aware, there are many products, services and networks available to provide reliable data communications between offices and between computer systems, fax machines and other devices in these offices. This also applies to factories and the machines on the factory floor.

To date, however, there have been no economically viable industrial networks, products or services available to link together and provide reliable data communications between the millions of people and machines in remote areas outside the office. And yet, for a large number of Canadian and international corporations and public agencies, success lies in the efficient and effective management of the people and assets located in these remote areas.

This is the *need* to which INTERSAT has responded. In this respect, we believe we stand alone.

Some years ago, a forward thinking man recognized the size of the market for personal computers. He also recognized that computers without applications and software were simply devices of limited utility and limited market appeal. It would be the applications which would solve the customers' problems, provide the value and generate the market for his company. Now this man's work touches virtually all our lives on a daily basis. And his early shareholders have done rather well by their investment and their belief in his corporate vision.

Today, the wireless data market is growing rapidly, particularly in the area of mobile satellite communications. We believe its long-term success will hinge on the availability of applications, networks and service providers who deliver solutions to industry.

This is the *vision* of INTERSAT. In this respect, we believe we stand alone.

INTERSAT's technology and network and the products and services which underlie each, are creating new possibilities for

industry. They are allowing new ways of operating and new ways of thinking.

When it comes to moving critical business data in a reliable fashion, the market requires a group which has spent years 'under the gun' providing industrial control systems and communications technology to major corporate customers. The market requires a company with solutions, not commodities. The market requires an understanding of and dedication to industrial needs.

This is the *core strength* of INTERSAT. In this respect, we believe we stand alone.

We see many challenges in the coming year. We are moving from the realm of a pure technology developer to a provider and distributor of products and services. Our customer base is growing rapidly and we must manage this growth without compromising the levels of quality and service for which we have become known.

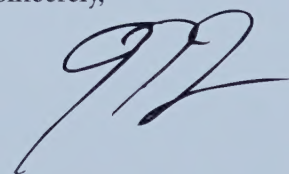
As we begin the 1998 fiscal year, we are moving forward confidently, focussed on our future but mindful of our past. We are addressing the

challenges we face today and working proactively to prepare for the challenges of the future. We are working hard to expand our distribution network. We are continually developing new solutions and successive generations of existing solutions. We are creating an understanding in the financial markets of the true value and earnings power of our technology.

On behalf of our staff and Board of Directors, I wish to thank our shareholders for their continuing confidence, vision and courage. As we move towards the future, we remain committed to the development and provision of superior remote data communication solutions for industry and the associated creation of superior returns for our shareholders.

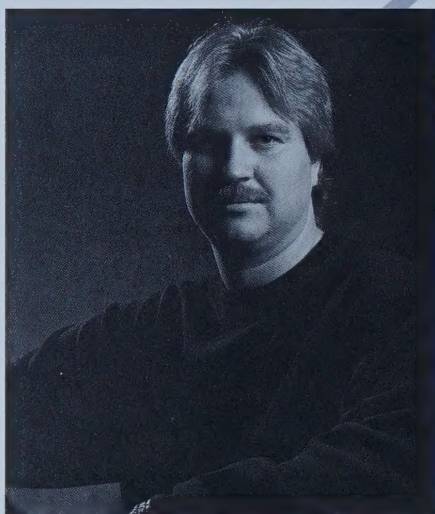
This is the *mission* of INTERSAT. In this respect, we believe we stand together.

Sincerely,



J.T. Knight, Ph.D., P.Eng.
President & CEO

OUR NETWORK



Mike Neudoerffer, P.Eng.
Director of Engineering

We have coined the phrase *Outernet* for our network. Where the world has come to rely upon the Internet to connect the people and machines in offices, INTERSAT envisions a world where the people and machines outside the office, particularly in a remote environment, will be connected through *Outernet*. *Outernet* is the foundation upon which all of our products and services are built. *Outernet* has components which reside in the PC, Interfax, Intercomm, IDK, RTU, or other devices at the remote site. *Outernet* has components at the other end of

the communication link which reside at an INTERSAT communication hub and/or a PC in the customers' office.

Outernet performs many functions, including:

- wrapping the customers' data in 'protective' protocols to guarantee complete data integrity
- establishing connections and ensuring that all required data is reliably passed to its destination
- compressing the customers' data to reduce communication airtime costs
- encrypting the customers' data to ensure complete security over any medium
- automatically re-establishing links if communications are temporarily interrupted and resuming transmission from the point of interruption
- directing data traffic, to ensure that information is properly delivered to its appropriate destination
- providing the flexibility to work with and interface to the many popular hardware devices and software packages in use by industry
- providing store and forward, alarm callouts, report generation, internet e-mail interfaces and other enhanced services

Outernet, and its ancillary products and services, are the result of over 30 man-years of leading edge industrial engineering and many more foundation years in real-time industrial control and communications engineering. Given the time required and the difficulty in developing such a reliable and full-featured network, we are targeting those service providers, technology vendors and industrial users who see the value in attaching to INTERSAT's network and incorporating or using INTERSAT's products and services, rather than attempting to invent their own.

For this reason, INTERSAT's products and services (the front-end of the network through which users interface) are based on familiar and traditional platforms such as DOS, Windows and Modbus. It is also for this reason that *Outernet* has been developed independently of any particular satellite platform. This ensures that the *Outernet* tools may be used by our customers via that satellite or communication system which best suits their needs. Today, INTERSAT services are available over four different satellite systems and we are entering discussions with a fifth.

OUR MARKETS

The size and potential of the mobile satellite service market is becoming well-known. Recent studies have projected the global mobile satellite service market to reach \$36 billion by 2003, with growth from 260,000 users today to 23 million users. What is less well-known is that over 75% of this market is projected to be data communications and not voice.

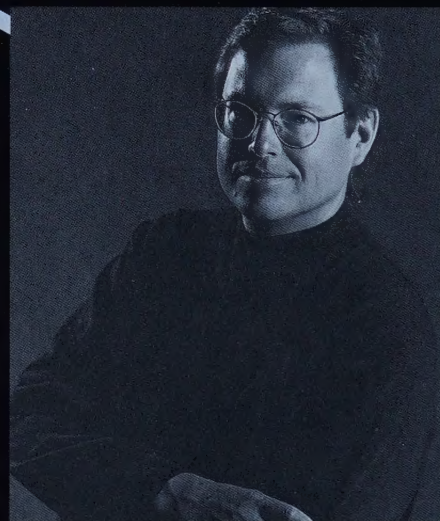
This is consistent with INTERSAT's mission to provide value-added data communication services to industry. It is a simple matter to pick up a satellite telephone and make a call. It is far less simple to use that same communicator to reliably send fax and data over satellite, particularly in remote unmanned fixed site applications. Our market therefore, consists of industrial users who require simple and reliable remote fax and data communications for their mobile field crews and fixed sites.

INTERSAT's current markets include:

- oil and gas
- mining
- forestry
- utilities
- construction
- transportation
- security
- emergency services
- public sector agencies

Efforts to penetrate the federal government market under the GTIS subcontract are continuing and are expected to bear fruit in the fall of 1997, when MSAT packet data services are scheduled for commercial release.

Presently, INTERSAT services are available globally and are in use across Canada and the United States and as far away as Africa and South America. Growth will continue through



Eric Larson, C.E.T.
Director of Sales

increased penetration of the North American market, particularly the United States and through selective international expansion.

OUR PRODUCTS

INTERFAX-HD



INTERCOMM



This year brought the introduction of several new hardware products, software products and services targeted at providing complete end-to-end solutions for common field data communication problems.

To illustrate, consider the following:

The satellites
were launched
and switched 'ON'.

The market said "We still can't fax reliably."

So we developed *Interfax-HD* and *Interfax-PC*. Now aeronautical and marine crews, oil and gas drilling sites, mining and forestry camps and other field crews are faxing over satellite.

Then the market said "We still don't have reliable file transfer or Internet e-mail connectivity."

So we developed *Interfile* and *Mobile Office*. Now producers and service companies are sending oil and gas well data, mines are sending drilling results and other remote users are employing satellite e-mail and file transfer in different applications.

Then the market said "We still don't have a reliable real-time data link to remote operations."

So we developed *Intercomm*. Now oil and gas well service companies are running critical fracture treatments from head office via real-time links, with other real-time applications also being run over satellite.

Most recently, the market said "We still don't have cost-effective or reliable monitoring and control of remote fixed sites."

So we developed *SiteHawk*. Now utilities are monitoring meters at power stations, oil and gas producers are monitoring production sites and pipeline operators and remote storage tanks owners are monitoring their facilities by satellite.

Our customers approved and said "We want to do it in Gabon and Kazakhstan and Malaysia and Venezuela."

Now they can.

Most exciting among these products is the *SiteHawk* family of services and its embedded interface product, called the IDK. This is the area where we believe our future lies. It is the world of remote site monitoring and is based upon the enhanced need for industrial communications engineering and control expertise. The other products and services developed and offered to date by INTERSAT will provide us with stable cash flows and have allowed our entry into the market, but it is the *SiteHawk* arena where we expect to truly out-distance the field. This is the area of our greatest competitive advantage, highest margins, greatest demand and best return for our shareholders.

We believe INTERSAT's suite of products and services is unparalleled in its ability to provide simple and reliable solutions to the field data communication problems faced by literally millions of mobile users and many millions more unmanned fixed sites.

OUR FUTURE

As the future unfolds, we will continue to work on the leading edge of technology, product and service development. We will continue to exhibit the risk-reducing stability and strength of an industrial engineering house.

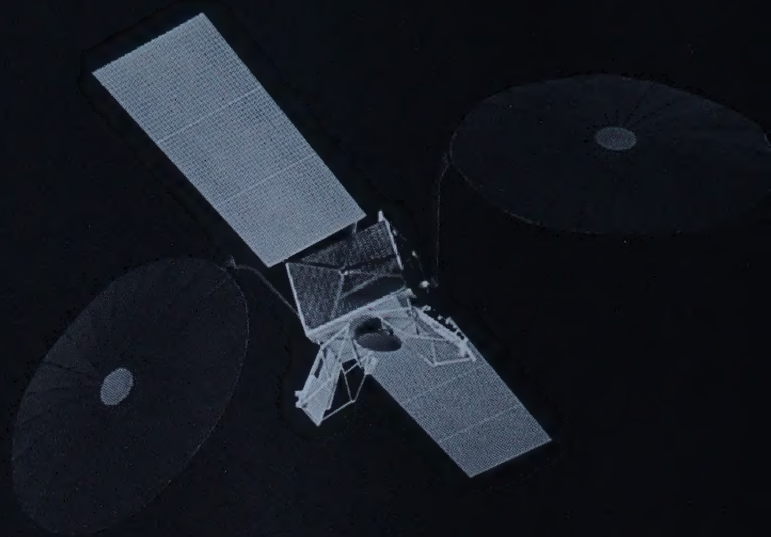
We see our future as being "the 'service providers' service provider". The market for satellite communicators and airtime is extensive but its nature as a commodity business implies low margins, a highly competitive environment and difficulty in competitive differentiation. We are moving away from this world and into one where we provide the solutions and value-added

products and services for use with the commodities sold by many other companies in the market. Several satellite system owner/operators and major distributors of satellite services have sought INTERSAT out in an effort to integrate our services and technical functionality into their core offerings.

This is the business of engineered solutions and applications development.

In this area, we have a substantial technical and market lead, as well as a sustainable competitive advantage. We believe this can be exploited for better profitability and a higher return to our shareholders.

While the industrial market is very demanding in its performance expectations, from a customer base perspective, it is



also much more commercially stable than personal use markets. Further, industrial users typically understand and can more readily quantify the value of and accept paying a premium for, the reliability and integrity available through INTERSAT services.

To reach these markets, we are continuing to expand our distribution network through a larger direct sales force, a network of agents and dealers, satellite system owner/operators, hardware manufacturers and software developers.

The global communications giants will continue in their race to put satellites in the sky and terminals on the ground. And in each instance, the market will require an applications company which can take the core space segment and wrap the products and services around it to provide the solutions that industry requires.

THIS IS OUR FUTURE.

OUR NUMBERS

In many ways, fiscal 1997 has been a building year for INTERSAT. We successfully closed our initial public stock offering on December 20, 1996, raising the maximum of \$2.5 million, through the sale of 2.5 million shares at \$1.00 per share. Our shares were posted for trading on the Alberta Stock Exchange on January 29, 1997, under the trading symbol 'ISS'.

We are pleased with our financial progress over the course of this past year. Revenues are growing at a solid rate, which means we are moving ever closer to the critical business mass required to cover fixed costs and achieve sustained profitability. Our target of reaching sustained profitability by late 1997 remains intact.

From Q1 to Q4, our sales and gross profit grew nearly 500%,

with these rates expected to accelerate into fiscal 1998.

This expectation is confirmed by the fact that over \$550,000 revenue (70% of fiscal 1997 revenue) was generated in the final four months of this fiscal year.

During the year, more customers entered the market for satellite data trial services and often encountered the frustration involved in developing their own applications or attempting to apply an incomplete core technology in the absence of applications. The embedded value of our products and services became more apparent. We believe our reputation for service integrity, reliability and ease-of-use, together with improved operational and service delivery efficiency, will enable us to improve gross margins in fiscal 1998.

Due to the extensive new product and service development expenditures which have now positioned us

as a leader in this industry, a net loss before depreciation and amortization of \$715,613 was reported in the year. This loss was expected and represents the necessary cost of building the global technical satellite data network which is the foundation for our future success.

To date, INTERSAT has accumulated some \$2,350,000 in tax loss carryforwards and tax expenditure pool balances which are available to reduce future years' income for tax purposes.

As acceptance of our products and services continues to increase, we move towards larger projects and volume orders. As we do this, we also move towards a need for additional administrative and project management skills. While we are working hard to minimize our non-billable labour component, we must also ensure that our customer service and administration is not compromised by our rapid growth. It is the nature of our business that the infrastructure and product development expenditures required for growth must lead the growth, rather than trail it.

For this reason, Research & Development expenditures for the year were \$246,511 (30%

of revenues). This includes approximately \$100,000 in the final quarter on three major projects, being:

- modifications to INTERSAT's Calgary hub to increase service capacity ten-fold and facilitate easier interfacing to other planned INTERSAT hubs, and
- development of the third generation of the Interfax, expanding its functionality while at the same time cutting the cost in half, and
- development of the IDK interface, for application in the coming packet data-based remote site monitoring market.

These three projects are expected to begin generating revenue in the second quarter of this year.

In October of 1997, we are moving INTERSAT to a new home in the City of Calgary. The growth in our volumes and personnel has created a need for more office and warehouse space to accommodate current activity levels and expected future growth. While this new space is still industrial in character, we are pleased at finding a suitable premises from which to stage the next few years of growth.

Additionally, in April we opened our first regional sales office, in Cambridge, Ontario, from which we will serve the Central and Eastern Canadian



Chris Schnarr,
Vice-President and
Chief Financial Officer

territories, with revenues expected in the second quarter of this year.

With nearly \$1.7 million in available working capital and no long-term debt, INTERSAT is on solid financial ground and is well positioned to pursue the many growth opportunities available in the 1998 fiscal year.

Financially, our objectives for the 1998 fiscal year are:

- achievement of breakeven, and sustained profitability thereafter, through continued sales growth, improving gross margins and controlled overhead expenditures, and
- improved share price, through more extensive communications to achieve broader market recognition of the value and cash flow generating potential of INTERSAT's markets and technologies.

AUDITORS' REPORT

To the Shareholders of **Interprovincial Satellite Services Ltd.**

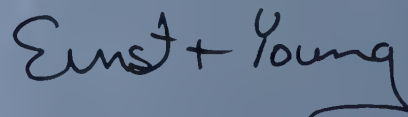
We have audited the balance sheets of **Interprovincial Satellite Services Ltd.** as at April 30, 1997 and 1996 and the statements of operations and deficit and cash flows for year ended April 30, 1997 and the two month period ended April 30, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant

estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 1997 and 1996 and the results of its operations and the changes in its financial position for the year ended April 30, 1997 and the two month period ended April 30, 1996 in accordance with generally accepted accounting principles.



Chartered Accountants
Calgary, Canada
June 20, 1997

BALANCE SHEETS

Interprovincial Satellite Service
 (Continued)

As at April 30

	1997	1996
	\$	\$
ASSETS		
Current		
Cash and cash equivalents	1,523,725	244,573
Accounts receivable	319,600	54,108
Share subscriptions receivable	—	279,688
Investment tax credit receivable	—	74,300
Prepaid expenses	13,330	8,764
Inventory	13,589	—
	1,870,244	661,433
Due from shareholders [note 3]	90,550	32,895
Capital assets [note 4]	344,384	142,953
Deferred development costs [note 5]	437,112	711,328
	2,742,290	1,548,609
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	201,631	69,715
Commitment [note 10]		
Shareholders' equity		
Share capital [note 7]	3,741,983	1,621,976
Deficit	(1,201,324)	(143,082)
	2,540,659	1,478,894
	2,742,290	1,548,609

See accompanying notes

On behalf of the board:


 Director


 Director

STATEMENTS OF OPERATIONS AND DEFICIT

Interprovincial Satellite Services Ltd.

	Year ended April 30, 1997 \$	Two month period ended April 30, 1996 \$
SALES	803,285	55,054
Cost of sales	454,879	13,580
Gross margin	348,406	41,474
Expenses		
General and administrative	817,508	126,521
Research and development	246,511	10,654
	1,064,019	137,175
Net loss before the following	(715,613)	(95,701)
Amortization of deferred development costs	(274,216)	(44,747)
Amortization of capital assets	(68,413)	(2,634)
Net loss for the period	(1,058,242)	(143,082)
Deficit, beginning of period	(143,082)	—
Deficit, end of period	(1,201,324)	(143,082)
Loss per common share [note 11]		
Basic and fully diluted	(\$0.10)	(\$0.02)

See accompanying notes

STATEMENTS OF CASH FLOWS

Interim financial statements are unaudited.

	Year ended April 30, 1997 \$	Two month period ended April 30, 1996 \$
OPERATING ACTIVITIES		
Net loss for the period	(1,058,242)	(143,082)
Add back non cash items:		
Amortization of deferred development costs	274,216	44,747
Amortization of capital assets	68,413	2,634
	(715,613)	(95,701)
Net change in non-cash working capital [note 8]	(77,431)	(35,022)
Cash used in operating activities	(793,044)	(130,723)
FINANCING ACTIVITIES		
Issue of common shares	2,560,000	786,641
Share issue costs incurred	(439,993)	—
Decrease (increase) in share subscription receivable	279,688	(279,688)
Increase in due from shareholders	(57,655)	(273,860)
Cash provided by financing activities	2,342,040	233,093
INVESTING ACTIVITIES		
Expenditures on capital assets	(273,049)	(17,664)
Disposals of capital assets	3,205	—
Deferred development costs incurred	—	(17,425)
Net change in non-cash working capital [note 8]	—	(32,103)
Cash used in investing activities	(269,844)	(67,192)
Net increase in cash during the period	1,279,152	35,178
Cash and cash equivalents, beginning of period	244,573	209,395
Cash and cash equivalents, end of period	1,523,725	244,573

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

Interprovincial Satellite Services Ltd.

April 30, 1997 and 1996

1. BASIS OF PRESENTATION

Interprovincial Satellite Services Ltd. ("the Company" or "Intersat") carries on the business of remote fixed and mobile data communications services, primarily employing satellite technology located in Calgary, Canada.

Intersat was formed on April 30, 1996 through the amalgamation of Interprovincial Satellite (Intersat) Services Ltd., Interprovincial Holdings (Interhold) Ltd. ("Interhold"), 3254640 Canada Ltd. (formerly 534303 Alberta Ltd.) and 3254631 Canada Ltd. (formerly 650393 Alberta Ltd.).

The amalgamation of these enterprises, all of which were under common control, was accounted for using the continuity of interests method in which the assets and liabilities are recorded in the financial statements at their respective carrying values. The financial statements for Intersat presented for periods prior to the amalgamation are restated to reflect the financial position and results of operations as if the companies had been combined since their inception.

As part of the amalgamation the Company changed its year end from February 28 to April 30 and accordingly the comparative financial statements presented herein are for the two month period ended April 30, 1996.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared by management in accordance with generally accepted accounting principles. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period involves the use of estimates and approximations which have been made using careful judgement. The financial statements have, in management's opinion, been prepared within reasonable limits of materiality and within the framework of the significant policies summarized below:

Government assistance and investment tax credits

Government assistance and investment tax credits are accrued when earned. Such assistance is applied to reduce the related expenses or asset costs.

Capital assets

Capital assets are recorded at cost less government assistance. Amortization is provided on a basis and at rates designed to amortize the costs of the assets over their estimated useful lives. Amortization is recorded, starting in the month of acquisition, using the declining balance method at the following rates:

Computer equipment	35%
Computer software	35%
Office furniture and equipment	20%
On site equipment	20%
Leasehold improvements	20%
Tradenames and licenses	5 years – straight line basis

Deferred development costs

Prior to March 1, 1996 Intersat's activities related to the research, development and preparation for commercial application of its satellite communications technology. Accordingly, all costs, net of revenues incurred to that date, were deferred. On March 1, 1996, the Company ceased to be a development stage enterprise and began commercial operations. The deferred development costs are being amortized on a straight line basis over three years commencing March 1, 1996.

Intersat's Financial Statements

The deferred development costs, net of accumulated amortization, are subject to an annual recoverability test whereby any costs in excess of estimated future net cash flows from Intersat's existing services are written down. No writedown is required at April 30, 1997. The ultimate recovery of Intersat's investment is dependent upon the ability of the Company to profitably market its satellite communications technology and to obtain adequate financing to do so.

Revenue recognition

Revenue is earned by providing software, hardware and services which enable bi-directional communication between local and remote fixed and mobile personnel and corporate assets. Revenue is recognized at the time the services have been rendered or the product has been sold.

Income taxes

The Company follows the tax allocation method of accounting under which the income tax provision is based on earnings reported in the accounts. Under this method, the Company provides for deferred income taxes to the extent that income taxes otherwise payable are reduced by deducting development costs for tax purposes in excess of the provision recorded in the accounts.

Measurement uncertainty

The amounts recorded for amortization of capital assets and deferred development costs are based on estimates. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

Financial instruments

Financial instruments of the Company consist mainly of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities. As at April 30, 1997 and 1996 there are no significant differences between the carrying amounts reported on the balance sheets and their estimated market values.

3. DUE FROM SHAREHOLDERS

The amounts due from shareholders are non-interest bearing and have no specific terms of repayment.

4. CAPITAL ASSETS

		April 30, 1997	
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Computer equipment	93,871	44,453	49,418
Computer software	69,847	47,317	22,530
Office furniture and equipment	95,465	39,306	56,159
On-site equipment	231,953	29,185	202,768
Leasehold improvements	4,696	469	4,227
Tradenames and licenses	11,602	2,320	9,282
	507,434	163,050	344,384

Interprovincial Satellite Services Ltd.

April 30, 1996

	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Computer equipment	58,592	27,341	31,251
Computer software	68,361	37,170	31,191
Office furniture and equipment	75,417	27,771	47,646
On-site equipment	37,115	4,250	32,865
	239,485	96,532	142,953

5. DEFERRED DEVELOPMENT COSTS

	1997 \$	1996 \$
Total deferred development costs	756,075	756,075
Less accumulated amortization	(318,963)	(44,747)
	437,112	711,328

Revenues of \$137,840 earned by the Company prior to the commencement of commercial production on March 1, 1996, have been netted against costs otherwise deferred.

6. DEMAND OPERATING LOAN FACILITY

As at April 30, 1997 the Company had a demand revolving credit facility with a maximum limit of \$100,000. Advances under the facility bear interest at the Royal Bank prime rate plus 1.50%. Collateral provided for this facility is a general security agreement covering all assets of the Company.

No amount was outstanding under this facility as at April 30, 1997.

7. SHARE CAPITAL

Authorized

Unlimited number of voting common shares with no par value

Unlimited number of non-voting preferred shares with no par value

Common shares issued

	Number	\$
Balance as at February 29, 1996	7,602,678	835,335
Issued for cash and services (i)	132,000	40
Issued for cash (ii and iii)	1,000,000	500,000
Conversion of debt (ii)	573,201	286,601
Balance as at April 30, 1996	9,307,879	1,621,976
Issued for cash in Initial Public Offering (iii and iv)	2,500,000	2,500,000
Share issue costs	—	(439,993)
Issued for services (v)	100,000	60,000
Balance as at April 30, 1997	11,907,879	3,741,983

Interprovincial Satellite Services Ltd.

- (i) On March 21, 1996, Interhold issued 4,000 common shares as consideration for services rendered to the Company. The shares have been recorded at \$40 representing the cash consideration received by the Company on the issue of the shares. These shares were converted into 132,000 common shares of the Company on the amalgamation.
- (ii) Pursuant to a private placement on April 30, 1996, the Company issued 1,000,000 common shares at \$0.50 per share. In addition, on April 29, 1996 the Company issued 573,201 common shares at \$0.50 per share in order to retire \$286,601 that was due to shareholders of the Company.
- (iii) On August 26, 1996, pursuant to a directors resolution the 1,000,000 common shares issued for cash as described in note 6(ii) above were cancelled and 1,000,000 Special Warrants were issued in replacement. On November 28, 1996 concurrent with the Company's initial public offering, the 1,000,000 Special Warrants were converted into 1,000,000 common shares of the Company.
- (iv) On November 28, 1996, pursuant to the Company's initial public offering, Intersat issued 2,500,000 common shares at \$1.00 per share for gross proceeds of \$2,500,000.
- (v) On January 28, 1997, Intersat agreed to issue 100,000 common shares to consultants for services rendered subject to regulatory approval. The issuance received regulatory approval on May 23, 1997 and was recorded at the market price per share at the date of issuance which was \$0.60 per share.

Pursuant to Intersat's stock option plan 1,153,000 common shares are reserved for issuance to eligible directors, officers and employees. The options vest on issuance and are exercisable immediately thereafter. Details of the options outstanding at April 30, 1997 are as follows:

Options	Exercise Price	Expiry Date
1,135,000	\$1.00	November 28, 2001
18,000	\$1.00	February 11, 2002

8. CHANGES IN NON-CASH WORKING CAPITAL

	1997	1996
Changes	\$	\$
Accounts receivable	(265,492)	(2,380)
Investment tax credit receivable	74,300	—
Prepaid expenses	(4,566)	—
Inventory	(13,589)	—
Accounts payable and accrued liabilities	131,916	(39,549)
Income taxes payable	—	(25,196)
Total change in non-cash working capital items	(77,431)	(67,125)
	1997	1996
Associated with	\$	\$
Operating activities	(77,431)	(35,022)
Investing activities	—	(32,103)
Total change in non-cash working capital items	(77,431)	(67,125)

April 30, 1997 and 1996

9. INCOME TAXES

As of April 30, 1997, the Company had tax loss carryforwards and tax expenditure pool balances of approximately \$2,350,000 available to reduce future years' income for tax purposes. The tax benefits from these tax pools will not be recognized in the financial statements until such benefits are realized. The losses approximating \$1,532,000 expire as follows: 2001 - \$83,000; 2002 - \$87,000; 2003 - \$366,000; 2004 - \$92,000; and 2005 - \$904,000.

The expenditure pools approximating \$818,000 in aggregate are comprised of: undepreciated capital cost - \$298,000; scientific research and experimental development expenditures - \$170,000; and deductible share issue costs of approximately \$350,000.

As of April 30, 1997 the Company had approximately \$25,000 of unclaimed business investment tax credits available to reduce future years' income tax. These credits, the benefit of which have not been reflected in the financial statements, expire at various times between 2004 and 2008.

10. COMMITMENT

The Company is committed to make monthly lease payments of \$2,851 per month plus operating costs for the rental of their current premises to November 1, 1997 inclusive. Aggregate payments relating to this lease for the fiscal year ended April 30, 1998 is \$17,104.

Subsequent to year end, the Company entered into a lease agreement for new premises commencing on August 1, 1997 for a 5 year term. The Company is committed to making monthly lease payments of \$5,282 per month plus operating costs for the entire period. Aggregate payments relating to this lease for the fiscal years ended April 30, 1998 through 2002 are as follows: 1998 - \$47,538; 1999 - \$63,384; 2000 - \$63,384; 2001 - \$63,384; and 2002 - \$63,384.

11. LOSS PER COMMON SHARE

The calculation of loss per common share is based on the weighted average number of common shares outstanding during the year which was 10,244,043 shares (1996 - 7,769,864). The fully diluted weighted average number of shares outstanding is 10,906,365 (1996 - 7,769,864).

CORPORATE INFORMATION

BOARD OF DIRECTORS

Dan Fehr,★ Calgary, Alberta
 Ross Gyori,★ Sylvan Lake, Alberta
 J.T. Knight, Calgary, Alberta
 Neil MacKenzie, Calgary, Alberta
 David Magus, Calgary, Alberta
 Conrad Porth, Calgary, Alberta
 Chris Schnarr,★ Calgary, Alberta
 (★ denotes Audit Committee member)

OFFICERS

J.T. Knight,
 President and Chief Executive
 Officer

Chris Schnarr,
 Vice-President,
 Secretary-Treasurer and Chief
 Financial Officer

STOCK EXCHANGE LISTING

The Alberta Stock Exchange:
 Trading Symbol: "ISS"
 Common shares issued and
 outstanding: 11,907,879
 Common stock options
 issued: 1,153,000

HEAD OFFICE

1820 30th Avenue N.E.
 Calgary, Alberta
 T2E 7M5

AUDITORS

Ernst & Young
 Calgary, Alberta

BANKERS

Royal Bank of Canada
 Calgary, Alberta

LEGAL COUNSEL

Ballem MacInnes
 Calgary, Alberta

REGISTRAR & TRANSFER AGENT

The R-M Trust Company
 Calgary, Alberta

INVESTMENT INFORMATION

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